

BANK INDONESIA

INDONESIA REGULATION
NUMBER 16/12/PBI/2014
CONCERNING
SHARIA MONETARY OPERATIONS

WITH THE BLESSINGS OF GOD THE ALMIGHTY

THE GOVERNOR OF BANK INDONESIA,

Considering : a. that in order to meet the objective to achieve and maintain Rupiah value stability, Bank Indonesia has the duty to establish and implement monetary policies;

b. that in order to support the duty to establish and apply monetary policies, Bank Indonesia may apply monetary control under sharia principles;

c. that for monetary control under sharia principles, Bank Indonesia conducts sharia monetary operations in Rupiah and foreign currencies to affect liquidity adequacy of sharia banks;

d. that for implementation of sharia monetary operations in foreign currencies, Bank Indonesia enriches instruments of sharia monetary operations in foreign currencies;

e. that in order to face and anticipate economic, financial, and monetary developments, effectiveness of sharia monetary operations needs to be improved;

f. that based on the foregoing considerations set forth in letter a, letter b, letter c, letter d, and letter e, it is necessary to re-establish Bank Indonesia Regulation on Sharia Monetary Operations;

Observing : Act Number 23 of 1999 on Bank Indonesia (State Gazette of the Republic of Indonesia of 1999 Number 66, Supplement to State Gazette of the Republic of Indonesia Number 3843) as last amended by Act Number 6 of 2009 on the Establishment of Government Regulation in Lieu of Act Number 2 of 2008 on the Second Amendment to Act Number 23 of 1999 on Bank Indonesia as a Act (State Gazette of the Republic of Indonesia of 2009 Number 7, Supplement to State Gazette of the Republic of Indonesia Number 4962);

HAS DECIDED:

To establish : BANK INDONESIA REGULATION CONCERNING SHARIA
MONETARY OPERATIONS

CHAPTER I

GENERAL PROVISIONS

Article 1

In this Bank Indonesia Regulation:

1. Bank shall be Sharia Commercial Bank and Sharia Business Unit.
2. Sharia Commercial Bank, hereinafter referred to as SCB, shall be Sharia Commercial Banks as specified in the Act concerning sharia banks.
3. Sharia Business Unit, hereinafter referred to SBU, shall be Sharia Business Unit as specified in the Act concerning sharia banks.

4. Sharia Monetary Operation, hereinafter referred to as SMO, shall be the implementation of Bank Indonesia's monetary policies for monetary control through open market operations and provision of standing facilities under sharia principles.
5. Sharia Open Market Operation, hereinafter referred to as Sharia OMO, shall be money market transaction activities under sharia principles conducted by Bank Indonesia and Bank as well as other parties for SMO.
6. Sharia standing facility shall be a facility provided by Bank Indonesia to Bank for SMO.
7. Sharia Bank Indonesia Certificate, hereinafter referred to as SBIS, shall be short-term securities under sharia principles in rupiah currency issued by Bank Indonesia.
8. Sharia Sovereign Securities, hereinafter referred to as SBSN, or may be referred to as Sovereign Sukuk, shall be sovereign securities issued under sharia principles as proof of participation in SBSN assets in Rupiah.
9. SBIS Repurchase Agreement transaction, hereinafter referred to as Repo SBIS, shall be loan extension by Bank Indonesia to SCB or SBU under collateralized borrowing scheme.
10. Business Day shall be the business days of Bank Indonesia, including limited business days of Bank Indonesia.

CHAPTER II

OBJECTIVE OF MONETARY OPERATIONS

Article 2

- (1) SMO aims to achieve the operational target of sharia monetary control in order to support to achieve the final target of Bank Indonesia's monetary policies.
- (2) The operation target set forth in paragraph (1) may be in the form of Rupiah liquidity adequacy of sharia banks or any other variables determined by Bank Indonesia.

Article 3

- (1) The operational target of monetary policies set forth in Article 2 is achieved by affecting sharia bank liquidity through liquidity absorption or liquidity injection.
- (2) Achievement of the operation target of monetary policies set forth in paragraph (2) is supported by liquidity management in foreign currency market.

CHAPTER III

SHARIA MONETARY OPERATION ACTIVITIES

Section One

Principles and Forms of Sharia Monetary Operations

Article 4

- (1) SMO activities must meet sharia principles.
- (2) Fulfilment of sharia principles set forth in paragraph (1) is stated in the form of declaration of fatwa and/or sharia opinion by the authority competent in issuing fatwa and/or sharia opinion.

Article 5

SMO activities set forth in Article 4 are conducted by:

- a. Sharia OMO; and
- b. Sharia Standing Facilities.

Section Two

Sharia Open Market Operations

Article 6

Sharia OMO set forth in Article 5 letter a is conducted through:

- a. SBIS issuance;
- b. purchase and sale of securities in Rupiah fulfilling sharia principles, including SBSN and other high quality and liquid securities;
- c. sharia term deposit in foreign currencies; and/or
- d. other transactions in Rupiah currency market and foreign currency market.

Article 7

Sale and purchase of securities in Rupiah set forth in Article 6 letter b may be conducted among others through:

- a. outright buying;
- b. outright selling;
- c. repurchase agreement/repo; and/or
- d. reverse repo.

Article 8

- (1) Sharia term deposit in foreign currencies set forth in Article 6 letter c uses *ju'alah* agreement.
- (2) Bank Indonesia determines and provides returns for sharia term deposit in foreign currencies.

Article 9

Sharia term deposit in foreign currencies set forth in Article 6 letter c may be liquidated by Bank by early redemption after fulfilment of certain requirements.

Article 10

- (1) Sharia term deposit in foreign currencies set forth in Article 6 letter c may reduce the overall net open position maintained by SCB at the end of a business day as specified in the provisions for net open position of commercial banks issued by the competent authority.
- (2) The highest sharia term deposit in foreign currencies, which may reduce the net open position set forth in paragraph (1), shall be equal to the lowest value of:
 - a. overall net open position at the end of the corresponding business day before subtracted by sharia term deposit in foreign currencies;
 - b. sharia term deposit in foreign currencies; or
 - c. 5% (five percent) of SCB capital.
- (3) SCB submits daily reports on the overall net open position at the end of the corresponding business day after calculating sharia term deposit in foreign currencies as subtracter.
- (4) If SCB fails to submit the report set forth in paragraph (3), sharia term deposit in foreign currencies will not be calculated as net open position subtracter.
- (5) If SBU places sharia term deposit in foreign currencies, calculation of sharia term deposit in foreign currencies may become the subtracter of net open position of conventional commercial banks, which have SBU.
- (6) If SBU places sharia term deposit in foreign currencies set forth in paragraph (5), daily reports on the overall net open position at the end of the corresponding business day after calculating sharia term deposit in foreign currencies shall be submitted by conventional commercial banks, which have SBU.
- (7) Calculation of sharia term deposit value in foreign currencies, which may become net open position subtracter, and reporting of net open position by conventional

commercial banks, which have SBU, set forth in paragraph (5) and paragraph (6) shall refer to the Bank Indonesia's provisions for monetary operations.

Article 11

Sharia OMO may be implemented every Business Day.

Article 12

OMO Sharia set forth in Article 11 is conducted through tender and/or tender mechanism.

Section Three

Sharia Standing Facilities

Article 13

Sharia Standing Facilities set forth in Article 5 letter b are provided through:

- a. deposit facility; and
- b. financing facility.

Article 14

- (1) The deposit facility set forth in Article 13 letter a is provided among others as Sharia Bank Indonesia Deposit Facility (FASBIS).
- (2) The financing facility set forth in Article 13 letter b is provided among others as report of Rupiah securities.

Article 15

- (1) Sharia Standing Facilities set forth in Article 13 are provided by Bank Indonesia on every Business Day.

- (2) Sharia Standing Facilities are provided through non-tender mechanism.

CHAPTER IV

SHARIA BANK INDONESIA CERTIFICATE

Section One

SBIS Agreements and Characteristics

Article 16

- (1) SBIS issued by Bank Indonesia uses *ju'alah* agreement.
- (2) Bank Indonesia establishes and provides returns for any issued SBIS.
- (3) Bank Indonesia pays returns set forth in paragraph (2) as follows:
 - a. when SBIS due; or
 - b. prior to SBIS due, if Bank fails to meet the mandatory SBIS Repo.

Article 17

SBIS has the following characteristics:

- a. has a unit of Rp1,000,000.00 (one million rupiah);
- b. has the shortest term of 1 (one) month and longest term of 12 (twelve) months;
- c. is issued scripless;
- d. may be collateralized with Bank Indonesia; and
- e. may not be traded in the secondary market.

Section Two

SBIS Ownership Requirements

Article 18

- (1) Bank may own SBIS.

- (2) The Bank set forth in paragraph (1) must fulfil the mandatory Financing to Deposit Ratio (FDR) determined by Bank Indonesia.

Section Three

SBIS Repo

Article 19

- (1) Bank may apply for SBIS Repo to Bank Indonesia.
- (2) The SBIS Repo set forth in paragraph (1) is under the principle of *qard* followed by *rahn*.
- (3) The Bank applying for SBIS Repo set forth in paragraph (1) must sign an Agreement on SBIS Collateralization for SBIS Repo and submit the required supporting documents to Bank Indonesia.
- (4) Bank Indonesia determines and charges SBIS Repo fees.

Section Four

SBIS Administration

Article 20

- (1) Bank Indonesia administers SBIS in an electronic administration system with Bank Indonesia.
- (2) The administration system managed by Bank Indonesia set forth in paragraph (1) includes SBIS transaction settlement system and SBIS ownership recording.
- (3) The SBIS ownership recording system set forth in paragraph (2) is conducted scrippless.

Article 21

Bank Indonesia shall pay SBIS in full when it falls due in the nominal amount and pay the returns set forth in Article 16 paragraph (3).

CHAPTER V

SHARIA MONETARY OPERATION PARTICIPANTS AND INTERMEDIARY AGENCIES

Article 22

- (1) SMO participants consist of:
 - a. Sharia OMO participants, namely Banks and/or any other parties determined by Bank Indonesia; and
 - b. Sharia Standing Facilities participants, namely Banks.
- (2) Sharia OMO participants may follow Sharia OMO activities, either directly or indirectly, through intermediary agencies.
- (3) Sharia Standing Facilities participants may only follow Sharia Standing Facilities in a direct manner.
- (4) Bank Indonesia determines requirements for SMO participants and intermediary agencies.

Article 23

- (1) SMO participants and intermediary agencies must be responsible for the reliability of any offers made.
- (2) SMO participants and intermediary agencies, which have submitted their offers, may not cancel such offers.
- (3) SMO participants and intermediary agencies must meet the offer submission mechanism and requirements for SMO transactions as determined by Bank Indonesia.

- (4) If SMO participants and intermediary agencies fail to meet the offer submission mechanism and requirements set forth in paragraph (3), any offers submitted will be rejected and/or not processed by Bank Indonesia.

Article 24

In following SMO activities, intermediary agencies set forth in Article 22 paragraph (2) are prohibited from submitting offers for their own interest.

Article 25

- (1) SMO participants must have:
 - a. Rupiah current account with Bank Indonesia; and
 - b. current account in foreign currency with Bank Indonesia if SMO participants follow sharia OMO transactions in foreign currencies.
- (2) SMO participants must have securities account with Bank Indonesia and/or custodian agency determined by Bank Indonesia.
- (3) SMO participants set forth in Article 22, which follow SMO activities directly or indirectly must provide adequate fund in their Rupiah current accounts with Bank Indonesia and/or adequate securities in Rupiah in their securities account with Bank Indonesia or custodian agency for obligation settlement on transaction settlement date.
- (4) If on the transaction settlement date, SMO participants do not meet the obligation set forth in paragraph (3), the relevant SMO transactions will be declared void.
- (5) SMO participants set forth in Article 22, which follow sharia OMO transactions in foreign currencies must provide adequate fund in their current accounts with Bank Indonesia or transfer adequate fund to Bank Indonesia's account with the correspondent bank for obligation settlement on the transaction settlement date.

- (6) If SMO participants fail to meet the obligation set forth in paragraph (5), their SMO transactions will be declared void.

Article 26

For SMO transaction settlements, Bank Indonesia may debit an SMO participant's current account with Bank Indonesia and/or securities account with Bank Indonesia and/or a custodian agency.

CHAPTER VI

SANCTIONS

Article 27

- (1) If an SMO transaction is declared void as set forth in Article 25 paragraph (4), the SMO participant will be imposed with the following sanctions:
- a. written admonition; and
 - b. payment obligation of 0.01% (one per ten thousand) of the declared void SMO transaction value, of Rp 10,000,000.00 (ten million rupiah) at the minimum and Rp 100,000,000.00 (one hundred million rupiah) at the maximum).
- (2) If a transaction has the second leg, the void SMO transaction value set forth in paragraph (1) letter b equals to the fund transaction value in the first leg.
- (3) If an SMO transaction is declared void as set forth in Article 25 paragraph (6), the relevant SMO participant will be imposed with the following sanctions:
- a. written admonition; and
 - b. mandatory payment of a certain percentage of the void transaction value announced by Bank Indonesia on the transaction plan announcement.

- (4) By not reducing the sanctions set forth in paragraph (1) and paragraph (3), if an SMO participant makes 3 (three) SMO transactions, which are declared void within 6 (six) months, the relevant SMO participant will be sanctioned with temporary suspension to follow SMO activities for 5 (five) consecutive Business Days.
- (5) If a transaction is cancelled in the second leg of repo transaction set forth in Article 25 paragraph (4) and securities price in the second leg transaction is lower than that in the first leg, in addition to the sanction set forth in paragraph (1), the relevant SMO participant will be additionally imposed with mandatory payment of the difference between the price in the first leg and that in the second leg, after multiplied by the nominal amount of the repo securities.
- (6) If a transaction is cancelled in the second leg of reverse repo transaction set forth in Article 25 paragraph (4) and SBSN's market price in the second leg transaction is higher than that in the first leg, in addition to the sanction set forth in paragraph (1), the relevant SMO participant will be additionally imposed with mandatory payment of the difference between the price in the second leg and that in the first leg, after multiplied by the nominal amount of the reverse repo securities.
- (7) The sanctioned temporary suspension set forth in paragraph (4) will not apply to an SMO participant's repo financing facility transaction, which comes from an unpaid sharia intraday liquidity facility transaction.

CHAPTER VII

CLOSING PROVISIONS

Article 28

Implementing regulations of this Bank Indonesia Regulation will be specified in Bank Indonesia Circular Letter.

Article 29

- (1) Upon enforcement of this Bank Indonesia Regulation:
 - a. Bank Indonesia Regulation Number 10/11/PBI/2008 concerning Sharia Bank Indonesia Certificate (State Gazette of the Republic of Indonesia of 2008 Number 50 and Supplement to State Gazette Number 4835);
 - b. Bank Indonesia Regulation Number 10/36/PBI/2008 concerning Sharia Monetary Operations (State Gazette of the Republic of Indonesia of 2008 Number 197 and Supplement to State Gazette Number 4944);
 - c. Bank Indonesia Regulation Number 12/17/PBI/2010 concerning the Amendment to Bank Indonesia Regulation Number 10/36/PBI/2008 concerning Sharia Monetary Operations (State Gazette of the Republic of Indonesia of 2010 Number 107);
 - d. Bank Indonesia Regulation Number 12/18/PBI/2010 concerning the Amendment to Bank Indonesia Regulation Number 10/11/PBI/2008 concerning Sharia Bank Indonesia Certificate (State Gazette of the Republic of Indonesia of 2010 Number 100);
 - e. Bank Indonesia Regulation Number 13/24/PBI/2011 concerning the Second Amendment to Bank Indonesia Regulation Number 10/36/PBI/2008 concerning Sharia Monetary Operations (State Gazette of the Republic of Indonesia of 2011 Number 119);are repealed and declared null and void.
- (2) Implementing regulations of Bank Indonesia Regulation set forth in paragraph (1) are declared to remain valid to the extent they are not in contravention of the provisions of this Bank Indonesia Regulation.

Article 30

This Bank Indonesia Regulation shall come into effect on the date of its stipulation.

For public cognizance, it is ordered that this Bank Indonesia Regulation be promulgated by placing it in the State Gazette of the Republic of Indonesia.

Stipulated in Jakarta

On July 24, 2014

THE GOVERNOR OF BANK INDONESIA,

(signed)

AGUS D.W. MARTOWARDOJO

Promulgated in Jakarta

On July 24, 2014

THE MINISTER OF LAW AND HUMAN RIGHTS

OF THE REPUBLIC OF INDONESIA,

(signed)

AMIR SYAMSUDIN

ELUCIDATION
OF
INDONESIA REGULATION
NUMBER 16/12/PBI/2014
CONCERNING
SHARIA MONETARY OPERATIONS

I. GENERAL

In order to support Bank Indonesia's objective to achieve and maintain Rupiah value stability, Bank Indonesia may perform monetary control under sharia principles as mandated in Act Number 23 of 1999 concerning Bank Indonesia as last amended by Act Number 6 of 2009 concerning Establishment of Government Regulation in Lieu of Act Number 2 of 2008 on the Second Amendment to Act Number 23 of 1999 concerning Bank Indonesia. One of the measurements of successful objective achievement is controlled annual inflation rate set as the final target of Bank Indonesia's duty in monetary sector.

In order to achieve the final target of monetary policies, one of the monetary control methods under sharia principle is by implementation of sharia monetary operations to affect liquidity adequacy of Rupiah and foreign currencies of sharia banks. In the implementation, Bank Indonesia may perform sharia monetary operations in the form of absorption or injection of Rupiah liquidity. In addition, Bank Indonesia considers it necessary to increase liquidity management and development of domestic foreign currency market by providing sharia instruments in foreign currency.

In performing sharia monetary operations in the form of absorption or injection of Rupiah liquidity, it is necessary to observe the implementation of Bank Indonesia's

duty in payment system. One of Bank Indonesia's efforts to maintain smooth payment system is by providing intraday liquidity facility under sharia principles. Therefore, congruent regulation is necessary in monetary and payment system.

Sharia instruments used in the implementation of sharia monetary operations have obtained fatwa and/or sharia opinion from the authority competent in issuing fatwa and/or sharia opinions.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory

Article 2

Paragraph (1)

Self-explanatory

Paragraph (2)

Rupiah liquidity adequacy may be in the form of primary money target or their components consisting of:

- a. real money with Banks and in the community; and
- b. Bank's current balance in Rupiah with Bank Indonesia.

"Other variables" mean variables other than Rupiah liquidity adequacy, determined as sharia monetary operational target, which among others takes the form of money market return rate between Banks under sharia principles.

Article 3

Paragraph (1)

“Liquidity absorption” shall be decrease in Bank’s Rupiah liquidity through SMO activities.

“Liquidity injection” shall be increase in Bank’s Rupiah liquidity through SMO activities.

Paragraph (2)

Self-explanatory

Article 4

Self-explanatory

Article 5

Self-explanatory

Article 6

Self-explanatory

Letter a

Self-explanatory

Letter b

“Other high quality and liquid securities” mean securities in Rupiah issued by another legal entity with high rank based on the evaluation result of rating agencies recognized by Bank Indonesia, and may at anytime be easily sold to the market for cash.

Letter c

Self-explanatory

Letter d

Self-explanatory

Article 7

Letter a

“Outright buying” shall be securities purchase by Bank Indonesia without any obligation to resell.

Letter b

“Outright selling” shall be securities purchase by Bank Indonesia without any obligation to repurchase.

Letter c

“Repurchase agreement/repo” shall be repo of securities by Bank to Bank Indonesia with mandatory repurchase at the agreed price and period.

Letter d

“Reverse repo” shall be reverse repo of securities by Bank to Bank Indonesia with mandatory reverse repo at the agreed price and period.

Article 8

Paragraph (1)

Ju’alah agreement shall be a pledge or commitment (*iltizam*) to give a certain return (*‘iwadh/ju’l*) for any achieved result (*natijah*) determined from a work.

Paragraph (2)

Self-explanatory

Article 9

Self-explanatory

Article 10

Paragraph (1)

Self-explanatory

Paragraph (2)

Example of calculation of SBU net open position subtraction affected by sharia term deposit in foreign currency is as follows:

No	Capital*	NOP before Sharia Foreign Currency TD		Sharia Foreign Currency TD	5% Capital	Maximum Sharia Foreign Currency TD as NOP subtracter	NOP after Sharia Foreign Currency TD	
		Absolute NOP	NOP Ratio				Absolute NOP	NOP Ratio
	a	b	c	d	e	f**	g	h
			c = b/a		5% x a		g = b-f	h=g/a
1	200,000	30,000	15%	35,000	10,000	10,000	20,000	10%
2	200,000	30,000	15%	5,000	10,000	5,000	25,000	12.5%
3	200,000	6,000	3%	8,000	10,000	6,000	0	0%

Letter a

Self-explanatory

Letter b

Self-explanatory

Letter c

“Capital” shall be capital as specified in provisions for net open position of commercial banks issued by the competent authority.

Paragraph (3)

Daily reports of overall net open position at the end of a business day by calculating sharia term deposit in foreign currencies as net open position subtracter, which is reported through Daily Report of Commercial Bank (LHBU).

Paragraph (4)

Self-explanatory

Paragraph (5)

Self-explanatory

Paragraph (6)

Self-explanatory

Paragraph (7)

Self-explanatory

Article 11

Self-explanatory

Article 12

Tender mechanism applies fixed rate tender method or variable rate tender. Non-tender mechanism applies bilaterally between Bank Indonesia and Sharia OMO participants.

Article 13

Self-explanatory

Article 14

Paragraph (1)

Self-explanatory

Paragraph (2)

“Repo of securities” shall be repo of securities by Bank to Bank Indonesia with mandatory sell and buy back at the agreed price and period and collateralized borrowing extended by Bank Indonesia to Bank.

Article 15

Paragraph (1)

Self-explanatory

Paragraph (2)

Non-tender mechanism in Sharia Standing Facilities is conducted bilaterally between Bank Indonesia and participant of Sharia Standing Facilities.

Article 16

Paragraph (1)

Ju'alah agreement shall be a pledge or commitment (*iltizam*) to provide a certain return (*'iwadh/ju'l*) for any achieved result (*natijah*) determined from a work.

Paragraph (2)

Self-explanatory

Paragraph (3)

Self-explanatory

Article 17

Letter a

Self-explanatory

Letter b

SBIS period is declared in the number of calendar days and calculated 1 (one) day after transaction settlement date until due date.

Letter c

Self-explanatory

Letter d

Self-explanatory

Letter e

Self-explanatory

Article 18

Paragraph (1)

Self-explanatory

Paragraph (2)

“Mandatory Financing to Deposit Ratio (FDR)” shall be a certain percentage of FDR owned by Bank, which is going to participate in a tender to own SBIS.

Article 19

Paragraph (1)

Self-explanatory

Paragraph (2)

“*Qard*” shall be borrowing without return with the borrower’s obligation to return the principal at once in a certain period.

“*Rahn*” shall be transfer of collateral from Bank (*rahin*) to Bank Indonesia (*murtahin*) as collateral for obtaining *qard*.

Paragraph (3)

Self-explanatory

Paragraph (4)

“SBIS Repo fee” shall be payment obligation (*gharamah*) determined by Bank Indonesia for SBIS Repo because Bank fails to comply with the agreed period of SBIS purchase.

Article 20

Paragraph (1)

Electronic administration in Bank Indonesia is conducted under the applicable provisions for transaction implementation, securities administration, and fund settlement.

Paragraph (2)

Self-explanatory

Paragraph (3)

Article 21

Self-explanatory

Article 22

Paragraph (1)

Letter a

“Other parties” among others is non-Bank legal entity.

Letter b

Self-explanatory

Paragraph (2)

“Intermediary agencies” among others are brokers in Rupiah and foreign currency markets and/or securities companies determined by Bank Indonesia.

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

Article 23

Paragraph (1)

Self-explanatory

Paragraph (2)

“Cancel” an offer shall be Bank withdraws a submitted offer.

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

Article 24

Self-explanatory

Article 25

Self-explanatory

Article 26

Self-explanatory

Article 27

Paragraph (1)

Self-explanatory

Paragraph (2)

Transactions with second leg among others are repo and reverse repo transactions.

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

Paragraph (5)

Self-explanatory

Paragraph (6)

Self-explanatory

Paragraph (7)

Self-explanatory

Article 28

Principal provisions specified in Bank Indonesia Circular Letter among others are:

- a. Sharia OMO implementation;
- b. Sharia Standing Facilities implementation;
- c. SMO activity period;
- d. requirements for SMO participants;
- e. participation characteristics in SMO; and
- f. sanction imposition mechanism.

Article 29

Self-explanatory

Article 30

Self-explanatory

SUPPLEMENT TO STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER
5567

**Regulation : Bank Indonesia Regulation No. 16/12/PBI/2014 dated July 24, 2014 on
Sharia Monetary Operations**

Effective :

Summary

1. This Regulation is issued to increase effectiveness of Sharia Monetary Operations (SMO) in order to face and anticipate economic, financial, and monetary developments. Increasing effectiveness of SMO regulation is conducted by merging regulations contained in Bank Indonesia Regulation on Sharia Bank Indonesia Certificate (SBIS) with Bank Indonesia Regulation on SMO. This Bank Indonesia Regulation also specifies liquidity management and enrichment of sharia monetary operation instruments to support development of domestic foreign currency market and achievement of monetary policy operational target.
2. The substance specified in this Bank Indonesia Regulation on SMO is principally the merger of substance in Bank Indonesia Regulation on SMO and Indonesia Regulation on SBIS, and also additional Sharia Term Deposit (TD) instrument in foreign currencies with the following adjustments:
 - a. The system in general is system in Bank Indonesia.
 - b. Omission of SBIS sale and purchase as Sharia OMO instrument.

- c. Adjustment of Sharia OMO and additional regulation concerning fixed rate tender and variable rate tender.
 - d. Regulation that sharia standing facilities are conducted every business day.
 - e. Flexibility in Bank Indonesia Regulation elucidation on SBIS regulation, which may be collateralized to BI.
 - f. Omit individuals as SMO participants.
 - g. Addition of clauses that SMO aims to achieve monetary policy operational target, supported by liquidity management in foreign currency market.
 - h. Addition of Sharia TD instrument in foreign currencies as one of OMO instruments and regulation that early redemption of Sharia TD in foreign currencies may apply and function as Net Open Position (NOP) subtracter.
 - i. Regulation on the obligation of SMO participants to have foreign currency current account with BI in following sharia OMO transactions in foreign currency and to provide adequate fund for transfer to BI accounts with correspondence banks.
 - j. Regulation on sanctions for void transactions due to failed settlements of Sharia OMO transactions in foreign currencies.
 - k. Concluding provisions repealing the currently applicable Bank Indonesia Regulation concerning SMO and Bank Indonesia Regulation concerning SBIS, and provisions that implementing regulations of the two repealed Bank Indonesia Regulations remain valid to the extent they are not in contravention of the new Bank Indonesia Regulation concerning SMO.
3. This Bank Indonesia Regulation starts to come into effect on July 24, 2014.

FREQUENTLY ASKED QUESTIONS
BANK INDONESIA REGULATION NUMBER 16/12/PBI/2014 CONCERNING
SHARIA MONETARY OPERATIONS

1. Q: What is the background of the issuance of this Bank Indonesia Regulation concerning Sharia Monetary Operations (SMO)?

A: This Bank Indonesia Regulation is issued to increase the effectiveness of Sharia Monetary Operations (SMO) to face and anticipate economic, financial, and monetary developments. Increasing effectiveness of SMO regulation is conducted by merging regulations contained in Bank Indonesia Regulation on Sharia Bank Indonesia Certificate (SBIS) with Bank Indonesia Regulation on SMO. This Bank Indonesia Regulation also specifies liquidity management and enrichment of sharia monetary operation instruments to support development of domestic foreign currency market and achievement of monetary policy operational target.

2. Q: What does Sharia Monetary Operation mean?

A: Sharia Monetary Operation means monetary policy implementation by Bank Indonesia for monetary control through open market operation activities and provision of standing facilities under sharia principles.

3. Q: What are the activities of Sharia OMO?

A: Sharia OMO activities include:

a. SBIS issuance:

The characteristics of SBIS among others are may be collateralized to Bank Indonesia and may not be traded in the secondary market. SBIS may be owned by Bank.

b. sale and purchase of securities in Rupiah, which meet sharia principles, include SBSN and other high quality and liquid securities.

c. sharia term deposit in foreign currencies; and/or

d. other transactions in Rupiah and foreign currency markets.

4. Q: When and in what mechanism is Sharia OMO conducted?

A: Sharia OMO may be conducted every Business Day in tender and non-tender mechanisms.

5. Q: What are the activities of Sharia Standing Facilities?

A: Sharia Standing Facilities are provided by Bank Indonesia to Bank for SMO in non-tender mechanism through:

a. deposit facility in the form of Sharia Bank Indonesia Deposit Facility (FASBIS); and

b. financing facility in the form of repo of securities in rupiah.

6. Q: What is the regulation concerning the implementation of sharia standing facilities?

A: This Bank Indonesia Regulation concerning SMO adds a provision that sharia standing facilities are conducted every business day.

7. Q: Who are SMO participants?

A: SMO participants consist of:

a. Sharia OMO participants are Bank and/or any other parties determined by Bank Indonesia; and

- b. Sharia Standing Facilities participants are Bank.
8. Q: Can individuals become SMO participants?
- A: Upon enforcement of this Bank Indonesia Regulation concerning SMO, individuals may no longer become SMO participants.
9. Q: In relation to enrichment of SMO instruments to support development of domestic foreign currency market, what is the instrument supporting such development?
- A: Sharia term deposit transactions in foreign currencies are referred to as Sharia Term Deposit in foreign currencies.
- Bank Indonesia determines and gives returns for sharia term deposit in foreign currencies.
10. Q: Is there any Sharia Term Deposit in foreign currencies, to which early redemption may apply?
- A: Early redemption may apply to Sharia Term Deposit in foreign currencies to the extent it complies with the procedures and requirements specified in Bank Indonesia Circular Letter.
11. Q: Can Sharia Term Deposit in foreign currencies function as subtractor in the calculation of Net Open Position (NOP)?
- A: Yes. Sharia Term Deposit in foreign currencies may become the NOP subtractor, the highest amount of which equals to the lowest value of:
- a. overall NOP value at the end of the corresponding business day before subtracted by sharia term deposit in foreign currencies;
 - b. sharia term deposit value in foreign currencies; or
 - c. 5% (five percent) of Sharia Commercial Bank's capital.
12. Q: What is the regulation of calculation and reporting of Sharia TD in foreign currencies, which become NOP subtractor?

A: Reporting of Sharia TD in foreign currencies, which become NOP subtracter for Sharia Commercial Bank (SCB) and Sharia Business Unit (SBU) is specified as follows:

- a. If transactions of Sharia TD in foreign currencies are conducted by SCB, calculation of Sharia TD in foreign currencies as NOP subtracter and daily reporting of NOP, which has calculated Sharia TD in foreign currencies as a subtracter, are conducted by SBU through Daily Report of Commercial Bank (LHBU)
- b. If transactions of Sharia TD in foreign currencies are conducted SBU, Sharia TD in foreign currencies may be used as subtracter of NOP of conventional commercial banks, which have BUS. Calculation and reporting of daily NOP, which have calculated Sharia TD in foreign currencies as subtracter, are conducted by conventional commercial banks, which have SBU.
- c. If SCB fails to submit reports through LHBU, sharia term deposit in foreign currencies will not be calculated as subtracter of net open position.

13. Q: Are there any sanctions imposed on SMO participants in relation to SMO activities in rupiah?

A: Yes, there are. Sanctions will be imposed on SCB and SBU following Sharia TD in foreign currencies, which fail to meet settlement obligation in the form of mandatory fund provision with Bank Indonesia or fund transfer to Bank Indonesia's account in correspondence bank adequate for obligation settlement on transaction settlement date. In this instance, SCB and SBU are sanctioned with written admonition and payment obligation of a certain percentage of the void transaction value, announced by Bank Indonesia on the transaction plan announcement.

14. Q: In what instance will SMO participants be imposed with sanctions in relation to SMO activities in rupiah?

A: If SMO transaction is declared void because SMO participant fails to provide adequate fund in Rupiah current account with Bank Indonesia and/or securities in Rupiah adequate in securities account with Bank Indonesia or custodian agency for obligation settlement on transaction settlement date.

15. Q: What are the sanctions?

A: Written admonition and payment obligation of 0.01% of the declared void SMO transaction value, of Rp 10,000,000.00 (ten million rupiah) at the minimum and Rp 100,000,000.00 (one hundred million rupiah) at the maximum) for each SMO transaction which is declared void.

If an SMO participant makes three SMO transactions, which are declared void within 6 (six) months, the relevant SMO participant will be sanctioned with temporary suspension to follow SMO activities for 5 (five) consecutive business days.

Temporary suspension will not apply to an SMO participant's repo financing facility transaction, which comes from an unpaid sharia intraday liquidity facility transaction.